Associated Alcohols & Breweries Limited (Revised)

February 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17.00	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	11.00	CARE A2+ (A Two Plus)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**28.00 (Rs. Twenty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Associated Alcohols and Breweries Limited (AABL) continue to derive strength from extensive experience of its promoters and established track record of operations in the alcoholic beverages industry, significant presence in the state of Madhya Pradesh (MP) for sale of Country Liquor (CL) and exclusive franchise rights for manufacturing and sale of five brands of United Spirits Limited (USL) till April 2025, favourable medium-term outlook for alcoholic beverages in India coupled with significant entry barriers and regulated price regime, resulting in limited competition. The ratings also take cognizance of continuous growth in its scale of operations except FY21 (refers to the period from April 1 to March 31) along with healthy profitability, improved capital structure and debt coverage indicators backed by strong liquidity position.

The abovementioned rating strengths are, however, partially offset on account of geographical concentration of its revenue stream along with susceptibility of AABL's profitability to volatile raw material prices with limited pricing power and its presence in a highly regulated liquor industry characterized by heavy duties & taxes and stringent government controls, exposing the company to adverse regulatory changes. The ratings also factor implementation risk associated with its large-size debt funded Ethanol project.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained growth in the scale of operations with total operating income (TOI) of more than Rs.600 crore while maintaining PBILDT margin on FY21 levels on a sustained basis.
- Scaling-up the proportion of IMFL sales in TOI of AABL to more than 50% on a sustained basis along-with better geographical diversification of its TOI.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in the PBILDT margin below 13% on a sustained basis leading to adverse impact on its debt coverage indicators
- Any change in the liquor policy by the MP government/adverse regulatory action whereby it restricts company's sales or impacts the financial risk profile of the company
- Inability of the company to secure license for selling CL in existing allocated districts during FY23 or termination of the agreement with USL.
- Undertaking any unplanned debt funded capex leading to moderation in the capital structure of the company

Outlook: Positive

Revision in the outlook to 'Positive' factors in expected growth in AABL's TOI along with diversification of its revenue stream post commissioning of ongoing Ethanol manufacturing project along with increase in the contribution of in-house IMFL brands in total sales. The outlook, however, may be revised to 'Stable' in case of lower than envisaged growth in AABL's revenue, reduction in profitability margins and deterioration in its liquidity profile.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoter group: AABL was promoted by late Mr Bhagwati Prasad Kedia and majority of stake is owned by Kedia family (58.45% stake in AABL as on December 31, 2021). Mr Tushar Bhandari, the executive director, is a management graduate and has an experience of more than a decade in the industry. He manages the day-to-day operations of the company with special focus on marketing and IMFL segment. In 2009, Kedia group set-up a brewery unit

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

under group entity namely Mount Everest Breweries Limited (MEBL). MEBL undertakes contract manufacturing of beer for United Breweries Limited (UBL); apart from manufacturing and selling beer under its own brands.

Established operations in MP in CL segment along with geographical diversification of sales territory in IMFL and ENA segment: AABL has an established track record of operations for more than three decades in the liquor industry. It has a significant presence in MP through sale of CL, in-house IMFL brands, USL brands under franchisee agreement and ENA. During FY21, MP contributed around 73% of potable alcohol sales (72% in FY20).
AABL has been allotted 9 districts [through district-wise quota system by Government of Madhya Pradesh (GoMP)] for the sale of CL at pre-determined prices for FY22. AABL also manufacturers and markets its in-house IMFL brands like 'Central Province', 'Bombay Special', 'Superman fine', 'James McGill' (in the whisky segment), 'Titanium' (in the vodka segment) and 'Jamaican Rum'. Since FY19, AABL increased its focus on sales of inhouse IMFL brands outside MP by entering into manufacturing agreements with a local distillery in Kerala and marketing agreement in Delhi, Chhattisgarh and Uttar Pradesh. Consequently, the share of MP which contributed approximately 84% of in-house IMFL brands sales in FY18 has reduced to 38% in FY21. AABL has been awarded an exclusive franchisee by USL for blending, bottling, branding and sales of its five IMFL brands in the State of MP in lieu of 'royalty' payment till April 2025. Apart from above, AABL also sells ENA and Rectified Spirit (RS) to leading manufacturers of potable alcohols across seven states in India including MP.

Recovery in consumption after fall due to COVID restrictions and improvement in profitability margins: AABL's TOI reduced by 16% y-o-y to Rs.440.33 crore in FY21 (Rs.525.45 crore in FY20), on account of lower consumption of alcohol owing to COVID-19 induced lockdown imposed by the Government. The same is also evident from lower consumption of CL in the entire state of MP during FY21. While CL still constitutes a major part of total potable alcohol sales, the contribution of IMFL sales has increased from 23% in FY18 to 39% in FY21, reflecting gradual diversification of its revenue profile. AABL's PBILDT and PAT margin improved significantly to 21.35% (15.49% in FY20) and 13.16% (9.39% in FY20) respectively in FY21 primarily on account of reduction in grain prices during FY21. AABL's gross cash accruals (GCA) also improved to Rs.70.82 crore in FY21 (Rs.61 in FY20).
Albeit impacted by the second wave of Covid-19 in Q1FY22, AABL reported TOI of Rs.205.14 crore in H1FY22 (Rs.165.68 crore in H1FY21). During H1FY22, the PBILDT and PAT margin remained largely in line with FY21 at 19.61% and 11.90% respectively.

Improved capital structure and debt coverage indicators: AABL's capital structure improved marked by overall gearing of 0.04x as on March 31, 2021 (0.06x as on March 31, 2020) on account of negligible term debt liability (except vehicle loan and lease liability), low reliance on bank borrowings for its working capital requirement and plough back of profits into business. Nevertheless, the overall gearing ratio is envisaged to deteriorate marginally at FY23 end on account of on-going debt-funded expansion plan to set up an ethanol plant.
The debt coverage indicators also remained comfortable during FY21 marked by PBILDT interest coverage ratio of 63.98x (30.19x in FY20) and total debt to GCA of 0.16x (0.18 in FY20) and is envisaged to remain comfortable in FY22 and ensuing years on back of healthy profitability and envisaged low debt levels.

High entry barriers and favourable medium-term prospects for the alcoholic beverage market in India: Liquor policies governing its production and sale are entirely controlled by respective state governments wherein it is very difficult for new entrants to get licenses, thus, providing a competitive edge to existing players. Furthermore, the states have been reasonably flexible in granting expansion of existing capacity to meet increasing demand, which acts in favour of incumbents as new players find it difficult to enter in the industry.
India is amongst the largest alcoholic beverage producers and the third largest liquor consumption market in the world. Key demand drivers of the industry have been growing disposable income, favourable demographics in the country wherein India is expected to add a sizeable population to the legal drinking age each year, changing lifestyle & societal norms with increasing acceptability of alcohol on social occasions, urbanization along with increasing number of pubs and bars in the country.
Outbreak of COVID-19 pandemic and subsequent lockdown announced by GOI, adversely affected the entire liquor supply chain with halting of production and retail sales of liquor. However, with gradual recovery in consumption levels, medium term prospects of alcoholic beverages in India is expected to be favourable.

Key Rating Weaknesses
Presence in highly regulated industry: The liquor industry is highly regulated in India with each state government controlling its policy on production, distribution, retailing and duty structure independently. As a result, there are difficulties in transfer of production from one state to another, along with huge burden of duties and taxes. Furthermore, in the recent past, few state governments have also banned sale of liquor and GoMP has been running social awareness & anti-alcohol campaigns and has been increasing excise duty on alcohol y-o-y to dissuade growth in consumption of alcohol in the state. Given the

strategic role of state government in the liquor industry, the company remains exposed to risks associated with regulatory changes.

Susceptibility of profitability to volatility in input prices: AABL's main raw materials includes non-food grade grains containing higher percentage of starch, viz. bajra, broken rice, maize and jawar etc. Production of food grains in India is highly dependent on the vagaries of monsoon and consequently the prices remain volatile. The food grain prices are also controlled by the Government of India through minimum support prices. On the other hand, the main product of AABL, viz. CL, is supplied at fixed rates determined by Govt. at the beginning of the year. Further, the price of CL and IMFL (supplied to government) is fixed in advance by the GoMP at the beginning of the year. Hence, AABL's profitability remains susceptible to variation in agricultural commodity price cycles. However, over the years, AABL has been able to accommodate the swings in the raw material prices through maintaining multi-grain feedstock for manufacturing alcohol.

Product and regional concentration risks: In-spite of gradual diversification by AABL, out of its total potable alcohol sales, CL contributed 36% in FY21, wherein profit margins are highly susceptible as selling price is fixed at the start of the year whereas grain prices fluctuate during the year. Also, in-spite of gradual diversification of its sales to states other than MP, out of total sales of potable alcohol, nearly 73% comes from MP reflecting its regional concentration.

Project implementation risk: AABL is setting up a multi grain-based Ethanol production plant having installed capacity of 300 LLPA at Village Khodi, Tehsil Barwah, Khargoan (M.P.) with cogeneration of power. The project is in line with the Government of India's Ethanol Blended Petrol (EBP) Program launched in 2003. Total cost of the project is estimated at Rs.120 crore; to be funded in the debt: equity ratio of 1.33:1. The project is at a nascent stage and AABL is yet to achieve financial closure for the project debt. AABL has granted capital advances to the tune of Rs.30 crore to machinery suppliers and acquired majority of the statutory clearances for the project. The project is envisaged to commence operations from October 2022.

Liquidity: Strong
AABL has strong liquidity position characterized by healthy gross cash accruals, negligible term debt repayment obligation (except meagre vehicle loans and lease liability) and huge free cash and bank balances (incl. fixed deposits) of around Rs.85.40 crore as on September 30, 2021 (Rs.73 crores as on March 31, 2021). AABL's reliance on bank borrowings for working capital utilisation remains low as indicated by average utilisation of fund-based working capital facilities at 8% during trailing 12-months ended December 31, 2021, supported by current ratio of 2.47x as on March 31, 2021. With the improvement in AABL's gross cash accrual in FY22 and onwards, the cash flow from operations are expected to improve further and increase cash accruals would be sufficient to meet on-going capax for ethanol plant and other proposed capex requirements of the company along with repayment obligations of proposed term debt.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the Company
Incorporated in 1989, Indore-based AABL is a public limited listed company and the flagship entity of the Kedia group, promoted by late Mr Bhagwati Prasad Kedia. The group is currently owned and managed by Mr Anand Kedia and Mr Prasann Kedia along with their family members/associate concerns.
AABL is one of the leading distilleries in MP and is engaged in manufacturing of potable alcohol, i.e.CL, IMFL, ENA and RS with an installed capacity of 450 lakh litre per annum (LLPA) at Khargone, MP.
In 2009, Kedia group setup a brewery unit under group entity viz. MEBL. MEBL undertakes contract manufacturing of beer for United Breweries Limited (UBL); apart from manufacturing and selling beer under its own brands. MEBL has an installed capacity of 10 lakh hectolitres (120 lakh cases) of beer per annum at its manufacturing facility located at Memdi, MP.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (Prov.)
Total operating income	525.45	440.33	205.14
PBILDT	81.40	94.00	40.23
PAT	49.34	57.96	24.41

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (Prov.)
Overall gearing (times)	0.06	0.04	0.01
Interest coverage (times)	39.10	63.98	174.23

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	17.00	CARE A-; Positive
Non-fund-based - ST-Bank Guarantee	-	-	-	-	11.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A-; Stable (07-Jan-21) 2)CARE A-; Stable (06-Apr-20)	-	1)CARE A-; Stable (05-Mar-19)
2	Fund-based - LT-Cash Credit	LT	17.00	CARE A-; Positive	-	1)CARE A-; Stable (07-Jan-21) 2)CARE A-; Stable (06-Apr-20)	-	1)CARE A-; Stable (05-Mar-19)
3	Non-fund-based - ST-Bank Guarantee	ST	11.00	CARE A2+	-	1)CARE A2+ (07-Jan-21) 2)CARE A2+ (06-Apr-20)	-	1)CARE A2+ (05-Mar-19)

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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